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RAMONA MUNICIPAL WATER DISTRICT

**REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS**

04981

FOR THE YEARS ENDED

JUNE 30, 2008, AND JUNE 30, 2007

RAMONA MUNICIPAL WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2008

**RAMONA MUNICIPAL WATER DISTRICT
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JUNE 30, 2008**

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RAMONA MUNICIPAL WATER DISTRICT
FINANCIAL SECTION
JUNE 30, 2008

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ramona Municipal Water District
Ramona, California

We have audited the accompanying statements of net assets of the Ramona Municipal Water District (the District) as of June 30, 2008, and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Ramona Municipal Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ramona Municipal Water District as of June 30, 2008, and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, and with the accounting systems prescribed by the State Controller's office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2008, on our consideration of the Ramona Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the

INDEPENDENT AUDITOR'S REPORT

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scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 10 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Ramona Municipal Water District. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hosaka, Nagel & Company

San Diego, California
August 25, 2008

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS DRAFT
JUNE 30, 2008**

This section of the Ramona Municipal Water District annual report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the District's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and sources of those changes. For fiscal year 2007/2008 total operating revenues have decreased approximately 2% to \$20,700,161 and total expenses have decreased approximately 4% to \$27,398,703. The small reduction in revenues and expenses reflect the overall economy slowing in the previous year and the impact of the October 2007 fires in Ramona. Property tax and penalties revenue has increased approximately 3% to 5,352,936 with no additional contributions required by the State of California.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this Management Discussion and Analysis report, the Independent Auditors' Report, and the basic Financial Statements of the District. The basic Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

BASIC FINANCIAL STATEMENTS

The District's Financial Statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows. These statements are prepared in a manner similar to commercial enterprises. The purpose of the Statement of Net Assets is to report all assets and liabilities of the District as of the date of the statement. The difference between the assets and liabilities is net assets, which represents the portion of total assets not encumbered by debt. Assets and liabilities are reported at historical purchase cost, except for investments, which are reported at fair market value in accordance with accounting pronouncements. Long-term infrastructure assets such as reservoirs, pipes and pumps are reduced by estimated depreciation based upon the expected remaining life of the underlying asset. The District records assets on its books when it takes ownership and liabilities when it incurs the obligation to pay, whether or not it has actually been billed.

The District uses Enterprise Funds to account for the five (5) operating divisions. Those operating divisions are (1) Water, (2) Fire and Paramedic, (3) Parks and Recreation, (4) San Vicente Sewer and (5) Santa Maria Sewer. Each division's operating results are tracked and compared to budget and prior year in the monthly Financial Statements provided to the board.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

BASIC FINANCIAL STATEMENTS (Continued)

These district wide Financial Statements also provide the consolidated financial results of the five operating divisions, with internal sales eliminated.

Water

This operating division maintains and services both a potable water system and an untreated water system. The potable system distributes treated water upon demand to 9,249 customers. The untreated system provides irrigation water to 215 customers. Rates for both potable and untreated water are independently set based upon the cost of importing, treating and delivering this water to those customers.

Fire and Paramedic

This operating division provides fire protection services and emergency medical services to 13,895 equivalent dwelling units (EDUs). The District contracts this service with the California Department of Forestry and maintains three fire stations. Rates for both fire service charges per EDU and ambulance calls are independently set based on the cost to service and maintain these three fire stations.

Parks and Recreation

This operating division provides the land and facilities for the well field park. The park is managed and run by the Ramona Parks and Recreation Association on a volunteer basis. The operating division receives funds from personal property taxes and the money it receives through the tax rolls is passed on to the Ramona Parks and Recreation organization.

San Vicente Sewer

This operating division provides sewer service to the San Diego County Estates area of Ramona and services 3,773 equivalent dwelling units (EDUs). A service rate per EDU is independently set based on the cost of treatment and collection of raw sewage of this facility.

Santa Maria Sewer

This operating division provides sewer service to the downtown area of Ramona and services 4,189 equivalent dwelling units (EDUs). A service rate per EDU is independently set based on the cost of treatment and collection of raw sewage of this facility.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

NET ASSETS

A condensed summary of the District's statements' of Net Assets is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash and Investments	\$ 14,038,262	\$ 16,975,305	\$ 19,220,804
Capital Assets, Net	80,441,098	77,964,222	75,723,879
Other Assets	<u>4,386,393</u>	<u>3,783,021</u>	<u>3,369,561</u>
Total Assets	<u>\$ 98,865,753</u>	<u>\$ 98,722,548</u>	<u>\$ 98,314,244</u>
Current Liabilities	\$ 7,684,006	\$ 7,235,626	\$ 5,032,302
Payable from Restricted Assets	149,118	145,197	141,376
Other Liabilities	561,985	548,802	563,519
Long-term Debt, Net	<u>6,201,084</u>	<u>8,078,653</u>	<u>9,959,639</u>
Total Liabilities	<u>\$ 14,596,193</u>	<u>\$ 16,008,278</u>	<u>\$ 15,696,836</u>
Capital Assets, Net of Related Debt	\$ 72,339,285	\$ 67,989,634	\$ 63,170,240
Restricted	417,149	404,560	395,043
Unrestricted	<u>11,513,126</u>	<u>14,320,076</u>	<u>19,052,125</u>
Total Net Assets	<u>84,269,560</u>	<u>82,714,270</u>	<u>82,617,408</u>
Total Liabilities and Net Assets	<u>\$ 98,865,752</u>	<u>\$ 98,722,548</u>	<u>\$ 98,314,244</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

NET ASSETS (CONTINUED)

A summary of the District's statements of revenues, expenses and changes in net assets is presented below:

OPERATING REVENUES

	2008	2007	2006
Water sales and service fees	\$ 13,525,505	\$ 14,253,079	\$ 13,335,652
Fire and emergency medical service fees	3,352,772	3,292,213	4,309,077
Sewer service fees	3,821,884	3,655,661	3,133,575
Total Operating Revenue	<u>\$ 20,700,161</u>	<u>\$ 21,201,953</u>	<u>\$ 20,778,304</u>

OPERATING EXPENSES

Water expenses	\$ 16,394,228	\$ 17,970,263	\$ 16,088,458
Fire and emergency medical expenses	5,287,708	5,357,588	4,304,937
Sewer expenses	5,254,302	4,912,284	4,852,816
Park expenses	462,465	185,109	111,336
	<u>27,398,703</u>	<u>28,425,244</u>	<u>25,357,547</u>
Operating Loss	<u>\$ (6,698,542)</u>	<u>\$ (7,274,146)</u>	<u>\$ (4,579,243)</u>

Non-Operating Revenues (Expense)

Connection and mitigation fees	\$ 818,712	\$ 644,173	\$ 865,614
Property taxes and penalties	5,352,936	5,170,834	1,382,857
Assessment revenue	282,089	285,642	308,532
Investment income	648,818	970,683	671,006
Interest expense	121,500	(332,310)	(230,002)
Miscellaneous	335,675	449,134	429,722
Other expense	(17,941)	(75,507)	-
	<u>7,541,789</u>	<u>7,112,649</u>	<u>3,427,729</u>

INCOME BEFORE CONTRIBUTIONS	<u>\$ 843,247</u>	<u>\$ (110,642)</u>	<u>\$ (1,151,514)</u>
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CAPITAL CONTRIBUTIONS	<u>712,043</u>	<u>207,504</u>	<u>-</u>
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INCREASE (DECREASE) IN NET ASSETS	\$ 1,555,290	\$ (96,862)	\$ (1,151,514)
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NET ASSETS AT BEGINNING OF YEAR	<u>82,714,270</u>	<u>82,617,408</u>	<u>83,768,922</u>
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NET ASSETS AT END OF YEAR	<u>\$ 84,269,560</u>	<u>\$ 82,714,270</u>	<u>\$ 82,617,408</u>
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**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

BUDGETARY HIGHLIGHTS

The district adopts an annual operating budget which includes proposed expenses and the means of financing them. The operating budget remains in effect for the entire year and is not revised. A comparison between actual and budgeted amounts are not required nor shown in the financial statement section of this report.

A comparison of the operating results for 2008, to the budget is presented below:

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>
OPERATING REVENUES	\$ 20,700,161	\$ 22,771,335	\$ (2,071,174)
OPERATING EXPENSES			
Water Expenses	16,394,228	18,145,363	1,751,135
Fire and Emergency Medical Expenses	5,287,708	5,395,482	107,774
Sewer Expenses	5,254,302	5,367,156	112,854
Park Expenses	462,465	167,421	(295,044)
	<u>27,398,703</u>	<u>29,075,422</u>	<u>1,676,719</u>
OPERATING LOSS	<u>\$ (6,698,542)</u>	<u>\$ (6,304,087)</u>	<u>\$ (394,455)</u>
NON-OPERATING REVENUES (EXPENSES)			
Connection and Mitigation Fees	\$ 818,712	\$ 947,440	\$ (128,728)
Property Taxes and Penalties	5,352,936	5,400,000	(47,064)
Assessment Revenue	282,089	301,000	(18,911)
Investment Income	648,818	535,125	113,693
Interest Expense	121,500	395,852	(274,352)
Miscellaneous	335,675	-	335,675
Other Expense	(17,941)	89,000	(106,941)
	<u>7,541,789</u>	<u>7,668,417</u>	<u>(126,628)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>\$ 843,247</u>	<u>\$ 1,364,330</u>	<u>\$ (521,083)</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2008, were as follows:

	Balance at July 1, 2007	Additions	Balance at June 30, 2008
Land	\$ 7,643,140	\$ -	\$ 7,643,140
Water Property, Plant, Lines and Equipment	96,274,727	2,217,389	98,492,116
Fire Protection Property, Building and Equipment	5,174,224	765,063	5,939,287
Park Buildings and Equipment	1,999,698	-	1,999,698
Sewer-SDCE Property, Plant, Lines, and Equipment	19,982,746	665,522	20,648,268
Sewer- Ramona Property, Plant Lines, and Equipment	12,622,367	350,525	12,972,892
Less: Accumulated Depreciation	(73,840,506)	(4,706,066)	(78,546,572)
Construction in Progress	<u>8,107,826</u>	<u>3,184,443</u>	<u>11,292,269</u>
Net Capital Assets	<u>\$ 77,964,222</u>	<u>\$ 2,476,876</u>	<u>\$ 80,441,098</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2008**

LONG-TERM DEBT

The long-term debt position of the District is presented below and more fully analyzed in Note 4 of the Financial Statements:

Installment Purchase Agreements	3,338,225	4,837,884	6,264,088
Notes, Contracts and Leases Payable	<u>2,513,463</u>	<u>2,786,529</u>	<u>3,050,878</u>
	8,176,688	10,079,413	11,899,966
Less Debt Discount	<u>(74,875)</u>	<u>(104,825)</u>	<u>(134,774)</u>
	<u>\$ 8,101,813</u>	<u>\$ 9,974,588</u>	<u>\$ 11,765,192</u>

ECONOMIC FACTORS AFFECTING CURRENT FINANCIAL POSITION

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in terms of past, present and future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Ramona Municipal Water District, 105 Earlham Street, Ramona, CA 92065-1599.

Ramona Municipal Water District

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008 AND 2007**

ASSETS

CURRENT ASSETS	2008	2007
Cash and Cash Equivalents	\$ 13,621,113	\$ 16,570,745
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$194,514 and \$198,920 for 2008 and 2007	2,341,911	2,590,995
Taxes Receivable	14,213	22,965
Interest Receivable	107,737	121,498
Inventories	1,837,365	943,631
Other Current Assets	7,040	4,942
TOTAL CURRENT ASSETS	17,929,379	20,254,776
 RESTRICTED ASSETS		
Cash and Cash Equivalents	417,149	404,560
Current Portion of Lawsuit Settlement Receivable	-	-
Lawsuit Settlement Receivable, Net of Current Portion	-	-
TOTAL RESTRICTED ASSETS	417,149	404,560
 OTHER ASSETS		
Capital Assets, Net	80,441,098	77,964,222
Debt Issue Costs, Net of Accumulated Amortization	78,127	98,990
TOTAL OTHER ASSETS	80,519,225	78,063,212
 TOTAL ASSETS	 \$ 98,865,753	 \$ 98,722,548

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2008 AND 2007**

LIABILITIES

CURRENT LIABILITIES	2008	2007
Accounts Payable	\$ 2,023,327	\$ 1,884,915
Current Portion of Long-Term Debt	1,775,729	1,775,935
Accrued Interest	78,749	74,149
Current Portion of Compensated Absences	99,174	96,848
Other Accrued Expenses	1,520,500	1,087,164
Deposits	2,186,527	2,316,615
TOTAL CURRENT LIABILITIES	7,684,006	7,235,626
PAYABLE FROM RESTRICTED ASSETS		
Current Portion of Long-Term Debt	125,000	120,000
Accrued Interest	24,118	25,197
TOTAL PAYABLE FROM RESTRICTED ASSETS	149,118	145,197
LONG-TERM LIABILITIES		
Assessment Bonds, Net of Current Portion	2,200,000	2,335,000
Installment Purchase Agreements, Net of Current Portion and Debt Discount	1,851,236	3,233,399
Notes, Contracts, and Leases Payable, Net of Current Portion	2,149,848	2,510,254
Compensated Absences, Net of Current Portion	561,985	548,802
TOTAL LONG-TERM LIABILITIES	6,763,069	8,627,455
TOTAL LIABILITIES	14,596,193	16,008,278
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	72,339,285	67,989,634
Restricted for:		
Assessment Bonds	417,149	404,560
Energy Conservation	-	-
	417,149	404,560
Unrestricted	11,513,126	14,320,076
TOTAL NET ASSETS	84,269,560	82,714,270
TOTAL LIABILITIES AND NET ASSETS	\$ 98,865,753	\$ 98,722,548

The notes to the financial statement are an integral part of this statement.

RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

OPERATING REVENUES	2008	2007
Water Sales and Service Fees	\$ 13,525,505	\$ 14,253,079
Fire and Emergency Medical Service Fees	3,352,772	3,293,213
Sewer Service Fees	3,821,884	3,655,661
TOTAL OPERATING REVENUES	20,700,161	21,201,953
 OPERATING EXPENSES		
Water Expenses:		
Source of Supply	6,222,360	6,713,408
Treatment Plants	787,770	1,166,724
Reservoirs and Pumping	2,379,627	2,330,961
Transmission and Distribution	1,375,534	1,546,267
Vehicle Maintenance	326,662	364,361
General and Administrative	2,301,560	1,987,347
Electric Rebate to Customers	133,402	1,030,216
Depreciation	2,867,313	2,830,979
	<u>16,394,228</u>	<u>17,970,263</u>
Fire and Emergency Medical Expenses:		
Safety Services	4,777,464	4,445,680
General and Administrative	290,643	737,432
Depreciation	219,601	174,476
	<u>5,287,708</u>	<u>5,357,588</u>
Sewer Expenses:		
Sewer Services	2,220,970	2,116,680
General and Administrative	1,452,601	1,335,038
Depreciation	1,580,731	1,460,566
	<u>5,254,302</u>	<u>4,912,284</u>
Park Expenses:		
Park Maintenance	424,044	128,286
Depreciation	38,421	56,823
	<u>462,465</u>	<u>185,109</u>
TOTAL OPERATING EXPENSES	27,398,703	28,425,244
 OPERATING LOSS	 (6,698,542)	 (7,223,291)

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

NON-OPERATING REVENUES	<u>2008</u>	<u>2007</u>
Connection and Mitigation Fees (Note 12)	818,712	644,173
Property Taxes and Penalties	5,352,936	5,170,834
Assessment Revenue	282,089	285,642
Investment Income	648,818	970,683
Miscellaneous	335,675	449,134
Interest Expense	121,500	(332,310)
Other Expenses	(17,941)	(75,507)
	<u>7,541,789</u>	<u>7,112,649</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	843,247	(110,642)
CAPITAL CONTRIBUTIONS	<u>712,043</u>	<u>207,504</u>
INCREASE (DECREASE) IN NET ASSETS	1,555,290	96,862
NET ASSETS - Beginning	<u>82,714,270</u>	<u>82,617,408</u>
NET ASSETS - Ending	<u><u>\$ 84,269,560</u></u>	<u><u>\$ 82,714,270</u></u>

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

CASH FLOWS FROM OPERATING ACTIVITIES	2008	2007
Cash Receipts from Customers	\$ 20,949,245	\$ 19,818,347
Other Operating Cash Receipts	8,752	1,254
Cash Payments to Suppliers	(19,735,092)	(17,278,318)
Cash Payments to Employees	(3,361,583)	(3,290,861)
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES	<u>(2,138,678)</u>	<u>(749,578)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes and Assessments Collected	5,635,025	5,456,475
Proceeds from Lawsuit Settlement	<u>-</u>	<u>-</u>
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>5,635,025</u>	<u>5,456,475</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection and Mitigation Fees	818,712	644,173
Acquisition and Construction of Capital Assets	(6,470,899)	(6,555,682)
Repayment of Long-Term Debt	(1,872,775)	(1,790,604)
Interest Paid on Long-Term Debt	117,979	(352,763)
Miscellaneous	311,014	130,600
Proceeds from Loan	<u>-</u>	<u>-</u>
NET CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(7,095,969)</u>	<u>(7,924,276)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest Received	<u>662,579</u>	<u>971,880</u>
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,937,043)	(2,245,499)
CASH AND CASH EQUIVALENTS - Beginning	<u>16,975,305</u>	<u>19,220,804</u>
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 14,038,262</u>	<u>\$ 16,975,305</u>

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	\$ (6,698,541)	\$ (7,274,146)
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	4,706,066	4,522,844
Amortization of Debt Issue Costs	20,863	20,863
(Increase) Decrease in:		
Accounts Receivable	271,597	(354,644)
Inventories	(893,734)	148,086
Other Current Assets	(2,098)	64,920
Increase (Decrease) in:		
Accounts Payable	138,412	1,271,643
Accrued Expenses	433,336	(248,830)
Deferred Compensation Benefits Payable	15,509	(17,314)
Deposits	(130,088)	1,117,000
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (2,138,678)</u>	<u>\$ (749,578)</u>
 CASH AND CASH EQUIVALENTS RECONCILIATION:		
Unrestricted		
Cash and Cash Equivalents	\$ 13,621,113	\$ 16,570,745
Restricted		
Cash and Cash Equivalents	<u>417,149</u>	<u>404,560</u>
	<u> </u>	<u> </u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 14,038,262</u>	<u>\$ 16,975,305</u>
 NONCASH TRANSACTIONS:		
Contribution of Capital Assets	<u>\$ -</u>	<u>\$ -</u>
	<u> </u>	<u> </u>
TOTAL NONCASH TRANSACTIONS	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of the Ramona Municipal Water District (the District). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE DISTRICT

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of Accounting
- B. Use of Estimates
- C. Revenue Recognition
- D. Inventory
- E. Property, Plant, and Equipment
- F. Interest Capitalization
- G. Depreciation and Amortization
- H. Cash Equivalents
- I. Deferred Compensation

NOTE 3 - CASH AND CASH EQUIVALENTS

NOTE 4 - RECEIVABLES

NOTE 5 - CAPITAL ASSETS

NOTE 6 - LONG - TERM DEBT

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM

NOTE 8 - RISK MANAGEMENT

NOTE 9 - POST - EMPLOYMENT BENEFITS

NOTE 10 - EARLY RETIREMENT INCENTIVE

NOTE 11 - LEASE

NOTE 12 - CAPITAL CONTRIBUTIONS

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE DISTRICT

The Ramona Water Municipal Water District was formed on August 15, 1956, pursuant to the Municipal Water Act of 1911 (California Statutes of 1991, Charter 671 as amended) for the primary purpose of supplying water to Ramona, California and surrounding areas. A five-member Board of Directors elected to staggered four-year terms of office from five (5) geographical divisions governs the District. In addition, the District provides fire protection, paramedic, sewer, and park recreation services.

In 1988, the District completed construction of Lake Ramona, a 12,500 acre-foot reservoir. Untreated water is purchased from the San Diego County Water Authority and pumped to the reservoir, and then sold to agricultural customers.

In 1981, the Ramona Fire Protection District was dissolved and merged with the District. The District managed the fire department until July of 1993, when a contract was entered into between the District and the California Department of Forestry, to provide fire and paramedical staff.

In May of 1975, the District was authorized to provide park and recreational services to the public. The District owns a 166-acre park in conjunction with its well fields. In 1994, the District entered into a contract with the Ramona Parks and Recreation Association (a non-profit public benefit organization), to operate and manage the park.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds. In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments."

This Statement provides for significant changes in financial reporting and is scheduled for phased implementation based on size of the government starting fiscal years ending 2002. On June 30, 2003, the District implemented GASB Statement No. 34 as it specifically relates to enterprise funds.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Accounting (Continued)

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement No. 20, the District has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those that conflict with GASB pronouncements. The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non capital financing, or investing activities.

B. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Revenue Recognition

The District recognizes water and sewer revenue on the accrual basis and includes an accrual for services provided in June but not yet billed. Property taxes are collected by the County of San Diego through the property tax billings. Real property taxes are levied on October 15, against owners of record at March 1, the lien date.

The taxes are due in two installments on November 1, and February 1, and become delinquent after December 10, and April 10, respectively. Property taxes are based on assessed values of real property, which are an approximation of market value and benefit assessments are levied on a per parcel basis. A revaluation of all real property must be made upon sale or completion of construction.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Inventory

Inventory consists of water and various warehouse materials, supplies and equipment necessary to service the District. Inventory is stated at the lower of cost or market determined on a first-in, first-out basis.

E. Property, Plant, and Equipment

Property, Plant, and Equipment are stated at cost. Contributed pipelines are valued at estimated fair market value on date of contribution and recorded as a direct addition to capital contributions.

F. Interest Capitalization

Interest costs incurred while constructing additions to District property and plant are capitalized as part of the specific fixed assets. See Note 5 for interest that was capitalized in 2008, and 2007.

G. Depreciation and Amortization

Depreciation is charged to expense for all fixed assets, including assets contributed to the District, and is computed using the straight-line method over the estimated useful asset lives as follows:

Water Transmission and Distribution System	
Dams and Reservoirs	50 years
Pipelines	50 years
Other	20-25 years
Wastewater Collection, Treatment, and Disposal System	20-50 years
Building and Structures	45 years
Equipment	3-10 years

Discount and issue costs of various debt agreements are recorded at cost and amortized using the straight-line method over the life of the related issue.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash Equivalents

For purposes of the financial statements, the District considers highly liquid debt instruments (excluding assets whose use is limited) purchased with a maturity of three months or less to be cash equivalents. Funds invested with the Local Agency Investment Fund are considered to be cash equivalents.

I. Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits deferment of a portion of current salary to future years. Benefits from the plan are not available to employees until termination, retirement, disability, death or unforeseeable emergencies.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The District does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or performs the investment function. The plan assets are being administered by both the California Public Employee's Retirement System (CalPERS) and Lincoln Financial Group.

Therefore, the fair market value of the plan assets at June 30, 2008, for CalPERS of \$122,589 and \$248,045 for Lincoln Financial Group is not included in the District's financial statements. The fair market value of CalPERS is presented as of June 30, 2007, the fair market value as of June 30, 2008 was not available the date of this audit report.

NOTE 3 - CASH AND CASH EQUIVALENTS

The District follows the practice of pooling cash and investments of all funds except funds for those required to be held separately by debt restrictions. Pooling is for the purpose of increasing interest earnings and administrative efficiency. Income earned on pooled assets is allocated to all participating funds based on their average cash balances.

Cash in all financial institutions up to \$100,000, is insured by the Federal Deposit Insurance Corporation (FDIC). Investments with brokerage firms are insured by the Securities Investor Protection Corporation (SIPC).

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits in financial institutions in excess of \$100,000 are collateralized by the financial institutions in accordance with Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies.

Cash and Cash Equivalents at June 30, 2008, and 2007 are as follows:

	Carrying Amount and Bank Balance	
	2008	2007
Cash on Hand	\$ 1,250	\$ 1,000
Cash on Deposit	689,980	218,724
Money Market Account	417,149	112,966
Short-Term Investments	-	7,956,700
State of California Local Agency Investment Fund	12,929,883	8,685,915
	<u>\$14,038,262</u>	<u>\$16,975,305</u>
Total Cash and Cash Equivalents		
	<u>\$14,038,262</u>	<u>\$16,975,305</u>
Unrestricted	\$13,621,113	\$16,570,745
Restricted	417,149	404,560
	<u>\$14,038,262</u>	<u>\$16,975,305</u>
Total Cash and Cash Equivalents		
	<u>\$14,038,262</u>	<u>\$16,975,305</u>

The State of California Government code and the District's investment policy authorize investments in bank certificates of deposit, obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, the State of California Local Agency Investment Fund and the San Diego County Treasurer's pooled investment fund.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

The District's pooled investments at June 30, 2008, are categorized below to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the District's name by the trust department of the bank from which the securities were acquired or its agent. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer from which the securities were acquired, but not in the District's name.

All certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure District deposits by pledging government securities that equal at least 110% of the District's deposits. California law permits financial institutions to secure District deposits by the pledging of first trust deed mortgage notes in excess of 150% of the District's deposit. The District may waive collateral requirements for deposits that are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Restricted Cash and Cash Equivalents

The District has funds held by a trustee restricted for the payment or security of certain debt, invested in accordance with the bond indenture specifying the types of investments its trustee may make.

Classification of Cash and Cash Equivalents by Credit Risk

The District's pooled investments at June 30, 2008, and 2007 are categorized below to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the District's name by the trust department of the bank from which the securities were acquired or its agent. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer from which the securities were acquired, but not in the District's name.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and Cash Equivalents held by the District at June 30, 2008, are as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Checking and Savings	\$ 2,186,714	\$ -	\$ -	\$ 2,186,714	\$ 689,980
Money Market Accounts	-	417,149	-	417,149	417,149
Short-Term Investments	-	-	-	-	-
Cash Equivalents Not Subject to Categorization:					
Local Agency Investment Fund	-	-	-	12,929,883	12,929,883
Cash on Hand	-	-	-	1,250	1,250
Total Cash and Cash Equivalents	<u>\$ 2,186,714</u>	<u>\$ 417,149</u>	<u>\$ -</u>	<u>\$15,534,996</u>	<u>\$14,038,262</u>

Cash and Cash Equivalents held by the District at June 30, 2007, are as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Checking and Savings	\$ 1,432,798	\$ -	\$ -	\$ 1,432,798	\$ 218,724
Money Market Accounts	-	112,966	-	112,966	112,966
Short-Term Investments	-	7,956,700	-	7,956,700	7,956,700
Cash Equivalents Not Subject to Categorization:					
Local Agency Investment Fund	-	-	-	8,685,915	8,685,915
Cash on Hand	-	-	-	1,000	1,000
Total Cash and Cash Equivalents	<u>\$ 1,432,798</u>	<u>\$ 8,069,666</u>	<u>\$ -</u>	<u>\$ 18,189,379</u>	<u>\$ 16,975,305</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 4 - RECEIVABLES

Receivables of the District were as follows:

	2008	2007
Utility Billings	\$ 1,449,290	\$ 1,703,779
Agricultural Rebates	48,686	147,565
EMS Receivables	203,144	170,038
Miscellaneous	536,518	275,731
TOTAL	<u>\$ 2,237,638</u>	<u>\$ 2,297,113</u>

NOTE 5 - CAPITAL ASSETS

Changes in Capital Assets for the year ended June 30, 2008, were as follows:

	Balance at July 1, 2007	Additions	Deletions	Transfers	Balance at June 30, 2008
Land	\$ 7,643,140	\$ -	\$ -	\$ -	\$ 7,643,140
Water Property, Plant, Lines, and Equipment	96,274,727	2,217,389	-	-	98,492,116
Fire Protection Property, Building and Equipment	5,174,224	765,063	-	-	5,939,287
Park Buildings and Equipment	1,999,698	-	-	-	1,999,698
Sewer-SDCE Property, Plant, Lines, and Equipment	19,982,746	37,547	-	-	20,020,293
Sewer-Ramona Property, Plant, Lines, and Equipment	12,622,367	978,500	-	-	13,600,867
Less: Accumulated Depreciaton	(73,840,506)	(4,706,066)	-	-	(78,546,572)
Construction in Progress	8,107,826	5,969,682	2,785,239	-	11,292,269
Net Capital Assets	<u>\$ 77,964,222</u>	<u>\$ 5,262,115</u>	<u>\$ 2,785,239</u>	<u>\$ -</u>	<u>\$ 80,441,098</u>

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Changes in capital assets for the year ended June 30, 2007, were as follows:

	Balance at July 1, 2006	Additions	Deletions	Transfers	Balance at June 30, 2007
Land	\$ 7,643,140	\$ -	\$ -	\$ -	\$ 7,643,140
Water Property, Plant, Lines, and Equipment	95,144,889	638,837	-	491,001	96,274,727
Fire Protection Property, Building and Equipment	4,697,027	477,197	-	-	5,174,224
Park Buildings and Equipment	1,971,361	28,337	-	-	1,999,698
Sewer-SDCE Property, Plant, Lines, and Equipment	20,434,472	39,275	-	(491,001)	19,982,746
Sewer-Ramona Property, Plant, Lines, and Equipment	12,490,203	132,164	-	-	12,622,367
Less: Accumulated Depreciaton	(69,328,687)	(4,522,844)	11,025	-	(73,840,506)
Construction in Progress	2,671,474	5,912,895	476,543	-	8,107,826
Net Capital Assets	<u>\$ 75,723,879</u>	<u>\$ 2,705,861</u>	<u>\$ 465,518</u>	<u>\$ -</u>	<u>\$ 77,964,222</u>

During the years ended June 30, 2008, and 2007, the District capitalized interest of \$536,123 and \$220,639 respectively, into construction in progress.

NOTE 6 - LONG-TERM DEBT

District Long-Term Debt at June 30, 2008, and 2007, consists of assessment bonds, installment purchase agreements, notes, contracts, and leases payable. All debt was issued to finance District capital improvements and is collateralized by those assets.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Assessment Bonds:	<u>2008</u>	<u>2007</u>
On March 14, 2000, the Board of Directors formed Assessment District No. 99-1. Assessment District No. 99-1 issued bonds in the aggregate principal amount of \$3,355,000 in August 2000. The bonds mature in various amounts ranging from \$85,000 to \$265,000 on September 2 of each year from 2001 until 2020. Interest rates range from 4.75% to 6.60%. The bonds are secured by a pledge of all assessment revenues.	\$ 2,325,000	\$ 2,455,000
Less: Current Portion	<u>(125,000)</u>	<u>(120,000)</u>
TOTAL ASSESSMENT BONDS	<u><u>\$ 2,200,000</u></u>	<u><u>\$ 2,335,000</u></u>
 Installment Purchase Agreements:		
Installment purchase agreement payable to Municipal Finance Corporation with interest at 4.92% payable semi-annually, principal payable annually with principal payments commencing October 2004, ranging from \$50,000 to \$1,162,000 through 2010, at which time a final payment of \$768,450 is due.	\$ 2,627,000	\$ 3,734,000
Installment purchase agreement series 2001 payable to Zions First National Bank with interest at 4.51%, payable in semi-annual principal and interest payments ranging from \$134,977 to \$1,795,820 through 2010. The debt proceeds were used to prepay and defuse the 1990 Certificates of Participation.	<u>711,225</u>	<u>1,103,884</u>
	3,338,225	4,837,884
Less: Current Portion	(1,486,988)	(1,499,660)
Less: Debt Discount	<u>(75,000)</u>	<u>(104,825)</u>
TOTAL INSTALLMENT PURCHASE AGREEMENTS	<u><u>\$ 1,776,237</u></u>	<u><u>\$ 3,233,399</u></u>

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Notes, Contracts, and Leases Payable:	<u>2008</u>	<u>2007</u>
Notes payable to Farmers Home Administration with interest at 5.00%, used to finance the acquisition and construction of water distribution, storage and related works and facilities, payments of \$115,190 including interest due annually through 2018.	\$ 891,882	\$ 956,060
Note payable to California Bank & Trust with interest at 4.27% used to finance capital improvements, monthly payments of \$ 23,572 including interest, due 2010.	<u>1,621,581</u> 2,513,463	<u>1,830,469</u> 2,786,529
Less: Current Portion	<u>(288,740)</u>	<u>(276,275)</u>
TOTAL NOTES, CONTRACTS, AND LEASES PAYABLE	<u><u>\$ 2,224,723</u></u>	<u><u>\$ 2,510,254</u></u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Future Long-Term maturities as of June 30, 2008, are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 1,900,728	\$ 383,783	\$ 2,284,511
2010	1,406,007	301,730	1,707,737
2011	1,337,393	235,823	1,573,216
2012	474,628	192,139	666,767
2013	499,510	168,672	668,182
2014-2018	1,882,354	510,451	2,392,805
2019-2021	676,068	89,760	765,828
Less: Debt Discount	<u>(74,875)</u>	<u>-</u>	<u>(74,875)</u>
TOTAL	<u>\$ 8,101,813</u>	<u>\$1,882,358</u>	<u>\$ 9,984,171</u>

Changes in Long-Term Debt for the year ended June 30, 2008, consist of the following:

	June 30, 2007	New Debt Incurred	Principal Payments	June 30, 2008
Assessment Bonds	\$ 2,455,000	\$ -	\$ (130,000)	\$ 2,325,000
Installment Purchase Agreements	4,837,884	-	(1,499,659)	3,338,225
Notes, Contracts, and Leases Payable	2,786,529	-	(273,066)	2,513,463
	<u>10,079,413</u>	<u>-</u>	<u>(1,902,725)</u>	<u>8,176,688</u>
Less: Debt Discount	(104,825)	-	9,950	(74,875)
	<u>\$ 9,974,588</u>	<u>\$ -</u>	<u>\$(1,892,775)</u>	<u>\$ 8,101,813</u>

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Changes in long-term debt for the year ended June 30, 2007, consist of the following:

	June 30, 2006	New Debt Incurred	Principal Payments	June 30, 2007
Assessment Bonds	\$ 2,585,000	\$ -	\$ (130,000)	\$ 2,455,000
Installment Purchase Agreements	6,264,088	-	(1,426,204)	4,837,884
Notes, Contracts, and Leases				
Payable	3,050,878	-	(264,349)	2,786,529
	11,899,966	-	(1,820,553)	10,079,413
Less: Debt Discount	(134,774)	-	29,949	(104,825)
	<u>\$ 11,765,192</u>	<u>\$ -</u>	<u>\$(1,790,604)</u>	<u>\$ 9,974,588</u>

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Ramona Municipal Water District contributes to the California Public Employees Retirement System (CalPERS), which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board action. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Funding Policy

Active plan members in CalPERS are required to contribute 8% of their covered salary. The District makes the contributions required of District employees on their behalf for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2007/2008 was 22.111%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year 2007/2008, the District's annual pension cost was \$1,025,231 and the District contributed its share of \$726,731 and the employee's share of \$298,500. The required contribution for fiscal year 2007/2008 was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included an 8.25% investment rate of return (net of administrative expenses) and include an inflation component of 3.5%. The actuarial value of CalPERS assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. CalPERS' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Three-year trend information for CalPERS:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 970,208	100%	- 0 -
June 30, 2007	\$ 952,717	100%	- 0 -
June 30, 2008	\$1,025,231	100%	- 0 -

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

FUNDED STATUS OF PLAN

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a) - (b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
June 30, 2004	\$ 426,958,282	\$ 334,956,019	\$ 92,002,263	78.5%	\$ 90,667,029	101.5%
June 30, 2005	\$ 499,323,280	\$ 405,480,805	\$ 93,842,475	81.2%	\$ 108,618,321	86.4%
June 30, 2006	\$ 620,492,183	\$ 501,707,110	\$ 118,785,073	80.9%	\$ 126,049,770	94.2%

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), which arranges for and provides general liability, property damage, and dam failure liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 8 - RISK MANAGEMENT (CONTINUED)

Noted below are condensed audited financial statements of the Authority as of September 30, 2007:

Assets	<u>\$ 102,216,230</u>
Liabilities	
Current Liabilities	\$ 28,014,655
Non-Current Liabilities	<u>45,334,222</u>
Total Liabilities	<u>73,348,877</u>
Net Assets	
Invested in Capital Assets	1,039,286
Unrestricted	<u>27,828,067</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 102,216,230</u>

The Authority had no Long-Term Debt at September 30, 2007:

Revenue	<u>\$ 17,164,056</u>
Operating Expenses	(16,228,461)
Other Income	2,904,045
Change in Funds	<u>-</u>
Change in Net Assets	3,839,640
NET ASSETS - Beginning	<u>25,027,713</u>
NET ASSETS - Ending	<u>\$ 28,867,353</u>

NOTE 9 - POST-EMPLOYMENT BENEFITS

The District provides post-employment benefits to eligible employees and their spouses. To be eligible, the employee must be at least fifty years of age with a minimum of five years full-time service to the District and the employee must be less than the age for eligibility for Medicare. For spouses to be eligible, they must be less than the age when he or she is eligible for Medicare.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

The post-employment benefits consist of the District contributing up to \$200 per month toward medical insurance coverage for an eligible retiree and no more than \$320 per month for an eligible retiree with a dependent spouse, for retiree's that retired under the 2002-2004 contract. For those retired under the 2005-2008 contract, the District contributions are \$258 and \$405.

For the year ended June 30, 2008, thirteen (13) retirees received these benefits. The District's cost was \$36,789.

NOTE 10 - EARLY RETIREMENT INCENTIVE

The District does not provide early retirement incentives for their employees.

NOTE 11 - LEASE

At June 30, 2008, the District is not committed to any future minimum capital or operating lease payments.

NOTE 12 - CAPITAL CONTRIBUTIONS

Capital contributions consist of the following:

Contributions of Water and Sewer Systems

Contributions of water and sewer systems by developers and property owners are valued based upon the District engineers' estimates of cost and are recorded as capital contributions. Water and sewer systems acquired by merging are also recorded as capital contributions.

Connection and Mitigation Fees

Connection and Mitigation Fees are charged to developers and property owners to join the District's water and sewer system. These fees are charged to those requiring permanent service from the facilities that have been constructed, are presently being constructed, or will be constructed in the future years.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

NOTE 12 - CAPITAL CONTRIBUTIONS (CONTINUED)

Connection and Mitigation Fees (Continued)

The District adopted (GASB) Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions," to record Connection and Mitigation Fees. Under Statement No. 33, the District recognizes connection and mitigation fees as revenue.

RAMONA MUNICIPAL WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2008

**RAMONA MUNICIPAL WATER DISTRICT
BOARD OF DIRECTORS
JUNE 30, 2008**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Robert Krysak	President	December 31, 2008
Doug Wilsman	Vice President	December 31, 2010
Red Hager	Treasurer	December 31, 2008
Jim Robinson	Secretary	December 31, 2010
Kit Kessinger	Director	December 31, 2008

**RAMONA MUNICIPAL WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2008**

The assessed valuation of the Ramona Municipal Water District at June 30, 2008, is as follows:

Assessed Valuation

Secured Property	\$ 3,604,803,740
Unsecured Property	<u>46,172,975</u>
Total Assessed Valuation	<u><u>\$ 3,650,976,715</u></u>

RAMONA MUNICIPAL WATER DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Ramona Municipal Water District
Ramona, California

We have audited the financial statements of the Ramona Municipal Water District (District), as of and for the year ended June 30, 2008, and have issued our report thereon dated August 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, the audit committee, others within the entity, and federal awarding agencies and pass-through entities, where applicable, and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Nagel & Company

San Diego, California
August 25, 2008

RAMONA MUNICIPAL WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2008

**RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? Yes N/A No

Identification of major programs:

CFDA Number

N/A

Name of Federal Program

N/A

Dollar threshold used to distinguish between Type A and Type B programs: N/A

Auditee qualified as low-risk auditee? N/A

**RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Section II -- Financial Statement Findings

No matters were reported.

Section III -- Federal Award Findings and Questioned Costs

No matters were reported.

RAMONA MUNICIPAL WATER DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
NONE	N/A	N/A